

**ALASKA STATE LEGISLATURE
JOINT MEETING
SENATE RESOURCES STANDING COMMITTEE
HOUSE RESOURCES STANDING COMMITTEE
ANCHORAGE LIO**

December 16, 2019

1:59 p.m.

MEMBERS PRESENT

SENATE RESOURCES STANDING COMMITTEE

Senator John Coghill, Vice Chair
Senator Cathy Giessel
Senator Lora Reinbold
Senator Click Bishop
Senator Scott Kawasaki
Senator Jesse Kiehl

HOUSE RESOURCES STANDING COMMITTEE

Representative Geran Tarr, Co-Chair
Representative Grier Hopkins, Vice Chair (online)
Representative Sara Hannan
Representative Sara Rasmussen
Representative George Rauscher (online)
Representative Ivy Spohnholz
Representative Dave Talerico
Representative Chris Tuck

MEMBERS ABSENT

HOUSE RESOURCES STANDING COMMITTEE

Representative John Lincoln, Co-Chair

OTHER LEGISLATORS PRESENT

Senator Elvi Gray-Jackson
Senator Josh Revak

Representative Bryce Edgmon (online)
Representative Zack Fields (online)

Representative Mel Gillis
Representative Jennifer Johnston
Representative Andy Josephson (online)

COMMITTEE CALENDAR

OVERVIEW: BP/HILCORP TRANSACTION

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

CORRI FEIGE, Commissioner
Alaska Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided an overview of the BP/Hilcorp transaction.

PETER CALTAGIRONE, Senior and Legal Policy Advisor,
Commissioner's Office
Alaska Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a sale structure overview of the BP/Hilcorp transaction.

MATT SNODGRASS, Commercial Analyst
Division of Oil and Gas
Alaska Department of Natural Resources
Anchorage, Alaska

POSITION STATEMENT: Provided a financial analysis overview of the BP/Hilcorp transaction.

JOHN PTACIN, Chief Assistant Attorney General
Oil and Gas Section
Alaska Department of Law
Anchorage, Alaska

POSITION STATEMENT: Explained the role of the Department of Law in the BP/Hilcorp transaction.

ACTION NARRATIVE

[1:59:44 PM](#)

VICE CHAIR COGHILL called the joint meeting of the Senate and House Resources Standing Committees to order at 1:59 p.m. Present at the call to order from the Senate Resources Standing Committee were Senators Giessel, Bishop, Reinbold, Kiehl, Kawasaki, and Vice Chair Coghill. Also in attendance were Senators Gray-Jackson and Revak.

CO-CHAIR TARR announced that present at the call to order from the House Resources Standing Committee were Representatives Talerico, Rasmussen, Tuck, Hannan, and Co-Chair Tarr. She noted that Representative Lincoln is excused for a medical reason. Also in attendance were Representatives Edgmon (online), Fields (online), Gillis, Johnston, and Josephson (online).

VICE CHAIR COGHILL noted that Senator Revak as well as Representatives Johnston and Gillis are present at the meeting.

Overview: BP/Hilcorp Transaction

[2:02:30 PM](#)

VICE CHAIR COGHILL announced that the joint committee will discuss the BP Alaska and Hilcorp role as they played out to Alaska's various agencies. Leading the conversation is Commissioner Corri Feige from the Alaska Department of Natural Resources and her team members.

He announced that Senator Gray-Jackson is present at the meeting.

CO-CHAIR TARR announced that Representative Spohnholz has joined the committee meeting and Representative Rauscher is online.

VICE CHAIR COGHILL noted that Representative Hopkins has joined the meeting online.

[2:03:30 PM](#)

CORRI FEIGE, Commissioner, Alaska Department of Natural Resources, Anchorage, Alaska, said experts from within DNR and the Alaska Department of Law (DOL) have joined her for the joint committee overview. She said she is joined by experts within DNR and DOL who are actively engaged in the due diligence and review of the BP/Hilcorp transaction. All the experts are part of the department's internal review team for the BP/Hilcorp transaction.

She introduced the department's expert team for the BP/Hilcorp transaction as follows:

- Dr. Matt Snodgrass, Commercial Analyst with the Division of Oil and Gas, Alaska Department of Natural Resources (DNR).
- John Ptacin, Chief Assistant Attorney General, Oil and Gas Section, Alaska Department of Law (DOL).
- Peter Caltagirone, Senior and Legal Policy Advisor, Commissioner's Office, Alaska Department of Natural Resources (DNR).

2:04:26 PM

COMMISSIONER FEIGE stated that she and the aforementioned presenters would share presentation of the DNR overview, BP & Hilcorp Transaction, and The Deal and the State's Oversight Role. She said Alaska law is clear, no transfer of the interest in an oil and gas lease shall be binding on the state until it is approved by the DNR commissioner. That authority places DNR in a primary oversight role through which a comprehensive due diligence and review of the transaction is undertaken by the department to ensure that the deal is in the best interest of the State of Alaska and that the state's interests are protected.

She noted that transactions like the BP/Hilcorp transaction are not new to the State of Alaska. The state's agencies are studying the deal with the same level of detail and granularity as those that have come before, namely the BP and Arco transaction. The DNR will talk about how the BP and Arco transaction differs from the BP/Hilcorp transaction.

She said the BP/Hilcorp deal is a complex transaction in that there are numerous subsidiaries and affiliates of the primary entities involved as well as a mix of both upstream and midstream assets changing hands.

She specified that upstream assets mean wells and production facilities associated with production in the fields. She pointed out that midstream assets mean assets like the Trans-Alaska Pipeline System (TAPS) and the shares in the pipeline as well. She added that assets like the storage tank at the Valdez Marine Terminal are identified as midstream as well.

She noted that an acronym listing for the different entities and nomenclatures used by the oil industry will be posted on the Alaska Legislature's Bill Action and Status Inquiry System (BASIS) for reference.

VICE CHAIR COGHILL confirmed that the acronym listing will be posted on BASIS.

[2:06:27 PM](#)

COMMISSIONER FEIGE explained that deals like the BP/Hilcorp transaction are a normal part of the natural evolution within the oil and gas industry all around the world. As an oil field matures it is not uncommon for the original developers to sell their assets to operators who specialize in mature asset management and production, the type of deal that is before committee members.

She reviewed the agenda for the department's overview, slide 2, and noted that the presentation will be structured in four primary categories:

- Who are the parties to this deal?
- What assets and liabilities are changing hands?
- How does the State of Alaska review and approve this deal?
- When might this deal close?

She said the state agencies talked about during the presentation have either an immediate or a direct role in approving the BP/Hilcorp transaction. If an agency does not have an immediate or direct role, the agency will not be discussed during the presentation. The presentation has been structured for brevity with the recognition that there will be several public meetings on the BP/Hilcorp transaction.

[2:08:11 PM](#)

She reviewed the following Sale Overview on slide 3:

- August 27, 2019:
 - Sale publicly announced.
- \$5.6 billion of upstream and midstream interests.
- Purported stock sale of the upstream companies.
- Combined stock and asset sale of the midstream companies and TAPS assets.
- October 11, 2019:

- o Division of Oil & Gas provided with confidential purchase and sale agreement to assist with its due diligence.

COMMISSIONER FEIGE summarized that in the upstream is a purported stock sale of companies and in the midstream is a combined stock and asset sale of midstream companies and assets. The DNR has been working its due diligence since the Division of Oil & Gas received the confidential copy of the purchase and sales agreement on October 11, 2019.

She said DNR has been working closely with both BP and Hilcorp and to date the companies have been very forthcoming with additional information that DNR has requested. Both BP and Hilcorp have been very transparent in answering any questions or providing clarity regarding certain aspects in the deal.

2:09:30 PM

PETER CALTAGIRONE, Senior and Legal Policy Advisor, Commissioner's Office, Alaska Department of Natural Resources, Anchorage, Alaska, reviewed the following from slide 4, BP & Hilcorp - Sale Structure:

- [Upstream] The Standard Oil Company, Share Sales to Hilcorp Alaska, LLC [Upstream]:
 - o BP Exploration (Alaska) Inc. (BPXA):
 - Holds Upstream Interests
 - Prudhoe Bay
 - Pt. Thomson
 - Milne Point
 - Liberty
 - ANWR.
 - o BP Alaska LNG LLC
 - One third interest Alaska LNG Project, LLC
- [Midstream] BP Pipelines Alaska Inc. (BPPA), Share and Asset Sale to Harvest Alaska, LLC
 - o Share Sale
 - Alyeska Pipeline Service Company
 - Approximately 49.1069 percent
 - Prince William Sound Oil Response Corporation
 - BP Transportation Alaska Inc.
 - Owns 32 percent PTE Pipeline, LLC
 - Owns 50 percent Milne Point Pipeline, LLC
 - o Asset Sale

- TAPS Assets

MR. CALTAGIRONE explained that the graphic presented to committee members in slide 4 shows the overall sale structure of the transaction and the entity names that are going to be involved, divided by the upstream and midstream categories.

He said the reference to the Standard Oil Company shown in the upstream is a remnant of the oil trusts from back in the Rockefeller days in the 1800s through a series of iterations and sales over the years; that is the actual entity that holds the ownership of shares in some of the interests that are changing hands in the BP/Hilcorp deal.

He explained that the DNR overview will address the upstream interest on the North Slope for BP Exploration (Alaska) that includes exactly where the interests are located with the percentages. Also, the third-party interest for the Alaska LNG Project, BP Alaska LNG, will be addressed in greater detail regarding exact entity holdings and what will be transferred.

He said BP Pipeline Alaska is the entity that holds the midstream assets: TAPS, shares in Alyeska, and a 25-percent share in Prince William Sound Oil Response Corporation. The midstream interest for BP Pipeline Alaska will be transferring to Harvest Alaska, Hilcorp's midstream entity.

[2:11:37 PM](#)

COMMISSIONER FEIGE addressed slide 5, Upstream Assets, as follows:

- All issued and outstanding shares of stock of BP Exploration (Alaska) Inc. (BPXA).
- BPXA owns working interests in oil and gas leases in the following areas:
 - Prudhoe Bay Unit: 26.36 percent
 - Pt. Thomson Unit: 32 percent
 - Milne Point Unit: 50 percent
 - Liberty Unit (Federal unit): 50 percent
 - Arctic National Wildlife Refuge (ANWR) (ASRC leases): 50 percent:
 - ANWR leases are from the Arctic Slope Regional Corporation (ASRC), not the State of Alaska.

She said the upstream assets changing hands have important percentages to bear in mind. First, BPXA owns working interest

ownerships in oil and gas leases. The Liberty Unit is often federal waters and will produce a bit from state and federal. There are 19 leases in ANWR that date back to the 1980s, 50 percent working interest ownership in the leases will change hands. However, the leases were issued by ASRC and not by the State of Alaska.

COMMISSIONER FEIGE reviewed the following on slide 6, North Slope Upstream Assets Before, As of December 2019:

- Milne Point
 - Hilcorp Alaska LLC: 50 percent
 - Unit operator
 - BP Exploration (Alaska) Inc: 50 percent
- Prudhoe Bay Unit
 - ExxonMobil Alaska Production Inc: 36.4027 percent
 - ConocoPhillips Alaska Inc: 36.0767 percent
 - BP Exploration (Alaska) Inc: 26.3606 percent
 - Unit operator
 - Chevron USA Inc: 1.1600 percent
- Liberty Unit
 - Hilcorp Alaska LLC: 50 percent
 - Unit operator
 - BP Exploration (Alaska) Inc: 50 percent
- Point Thomson Unit
 - ExxonMobil Alaska Production Inc: 61.1845 percent
 - Unit operator
 - BP Exploration (Alaska) Inc: 31.9321 percent
 - ConocoPhillips Alaska Inc: 4.9345 percent
 - Jade Energy LLC: 1.6103 percent
- ANWR Leases
 - BP Exploration (Alaska) Inc: 50 percent
 - Chevron USA Inc: 50 percent

She noted that Hilcorp Alaska currently owns 50 percent of the Milne Point and Liberty units. Hilcorp will be acquiring the other 50 percent from both the Milne Point and Liberty units.

[2:13:39 PM](#)

She addressed slide 7, North Slope Upstream Assets Post Closure, If Approved, as follows:

- Milne Point:
 - Hilcorp Alaska LLC: 50 percent
 - Unit operator
 - Hilcorp (BPXA): 50 percent
- Prudhoe Bay Unit
 - ExxonMobil Alaska Production Inc: 36.4027 percent
 - ConocoPhillips Alaska Inc: 36.0767 percent
 - Hilcorp (BPXA): 26.3606 percent
 - Unit operator
 - Chevron USA Inc: 1.1600 percent
- Liberty Unit
 - Hilcorp Alaska LLC: 50 percent
 - Unit operator
 - Hilcorp (BPXA): 50 percent
- Point Thomson Unit
 - ExxonMobil Alaska Production Inc: approximately 61 percent
 - Unit operator
 - Hilcorp (BPXA): approximately 37 percent
 - Jade Energy LLC: approximately 2 percent
- ANWR Leases:
 - BP Exploration (Alaska) Inc: 50 percent
 - Chevron USA Inc: 50 percent

COMMISSIONER FEIGE explained that post closure for the upstream units is the same math, but the percentages have changed. Hilcorp will still hold the minority percentage of 26 percent for the Prudhoe Bay Unit that is currently held by BPXA.

She pointed out that with the upstream assets, especially the large legacy fields like Prudhoe Bay, no one company goes it alone and acts unilaterally. The Prudhoe Bay field is managed through a technical operating working group. Both ConocoPhillips and ExxonMobil have technical professionals that are secundant to the operating team, they work side by side at present with BP and they will continue to work side by side with Hilcorp if the transaction closes and Hilcorp assumes unit operator role.

She detailed that post closure for the upstream units shows Hilcorp at 37 percent versus 32 percent for the Point Thomson Unit. The reason for Hilcorp's 37 percent interest is due to a transfer that DNR received the previous week where ConocoPhillips is transferring its 5 percent of the Point

Thomson Unit to Hilcorp Alaska. The ConocoPhillips transfer is unrelated to the BP/Hilcorp transaction of 32 percent for Point Thomson.

COMMISSIONER FEIGE reviewed the following on slide 8, Additional Asset Transfers:

- All issued and outstanding limited liability company membership interests of BP Alaska LNG LLC (BPALL).
- BPALL owns one-third of outstanding limited liability company interest in Alaska LNG Project, LLC (AKLNG).

She noted that additional assets that are being transferred would be all the issued and outstanding limited liability company membership shares or interest of BP Alaska LNG. BP Alaska LNG, LLC (BPALL) is the entity that was created by the producer group as a part of the AKLNG Project. BPALL is the entity that holds the rights to the land at Nikiski which would be the home of the liquefaction units associated with AKLNG. BPALL is also the operating company of record under any federal export permit associated with an AKLNG Project. BPALL is also the entity where Hilcorp would be stepping in to the more recent \$10 million pledge by BP, AGDC, and ExxonMobil for advancing due diligence on the economics of the large AKLNG line and export project.

[2:16:55 PM](#)

She reviewed Harvest Alaska, LLC Midstream on slide 9:

- BPTA holds 50 percent of the outstanding limited liability company interests of Milne Point Pipeline, LLC. (of which Harvest currently holds the other 50 percent).
- Thirty-two percent of the outstanding membership interests of Point Thomson Export Pipeline.

She detailed that the noted midstream interests from BP Transportation (BPTA) would transfer to Harvest Alaska, which is Hilcorp's midstream entity. BPTA currently holds 50 percent of the Milne Point Pipeline. She recalled that Hilcorp currently owns the other 50 percent of Milne Point and they also hold the other 50 percent of Milne Point Pipeline. Post closure, Harvest would own the other 50 percent of the Milne Point Pipeline from BPTA. The result would place the total of both midstream and upstream, Milne Point and Hilcorp, in subsidiary hands. BPTA would also transfer 32 percent of its outstanding interest in

the Point Thomson export pipeline and that goes hand and hand with the working interest ownership transfer.

COMMISSIONER FEIGE addressed slide 10, Harvest Alaska, LLC Midstream, as follows:

- Acquiring from BP Pipelines (Alaska) Inc. (BPPA):
 - BPPA's approximately 48.4 percent interest in TAPS and approximate 47.6 interest in TAPS terminal tankage in Valdez.
 - Approximately 49.1069 percent of issued and outstanding shares of Alyeska Pipeline Service Company.
 - Approximately 25 percent share in Prince William Sound Spill Response Corporation.

2:18:39 PM

REPRESENTATIVE HANNAN opined that Hilcorp appears to become the unit operator for all of Alaska's North Slope assets except for Point Thomson and their minority shareholder position in the Prudhoe Bay Unit. She asked if being the unit operator with a minority position is common and are there concerns for Hilcorp being the primary unit operator for all of Alaska's North Slope assets.

COMMISSIONER FEIGE clarified that the North Slope map shown to committee members does not show all the North Slope assets, just the assets that are changing hands. Having an operator with a minority position is not uncommon. Nobody goes it alone; the Prudhoe Bay Unit is operated as a team by the other working interest owners.

2:20:46 PM

REPRESENTATIVE HANNAN asked if DNR has any questions or concerns about Hilcorp's ability. She opined that Hilcorp appears to be taking a big step-up by becoming the unit operator for a longstanding unit that shifts from multinationals to a small independent. She asked if DNR has heard from the other partners involved in unit operations.

COMMISSIONER FEIGE replied that there have not been any specific concerns from the other working interest owners. However, the point Representative Hannan raises is very much central to the due diligence that DNR and other agencies are undertaking. Combing through Hilcorp's capability to undertake operatorship, to have the financial wherewithal to manage any kind of upset or event that might happen on that unit, that's all part of the

financial analysis that DNR and other agencies are in the process of undertaking as due diligence. The DNR wants to see an orderly and smooth transaction so that there is no hiccup or production disruption as the BP/Hilcorp transaction takes place.

2:22:19 PM

SENATOR KIEHL ask if a post-closure prospective of operators for the North Slope can be provided to show what the ownership stake looks like across the North Slope.

COMMISSIONER FEIGE noted that the website for the Division of Oil and Gas shows a working interest ownership map for the North Slope and Cook Inlet. The division's online map shows exactly who owns the working interest in all of Alaska's fields in addition to acreage across the North Slope and Cook Inlet. The information from the division shows a very competitive array of investors and working interest ownership across the North Slope, primarily due to the vigorous response to recent discoveries.

VICE CHAIR COGHILL opined that the last lease sale was indicative of the broad array that Commissioner Feige noted for the North Slope.

COMMISSIONER FEIGE concurred with Vice Chair Coghill.

REPRESENTATIVE SPOHNHOLZ referenced the sales structure for the BP/Hilcorp transaction that included share and asset sales. She asked if there were distinct regulatory obligations that are different for share and asset sales.

2:24:28 PM

MR. CALTAGIRONE answered that there are different obligations and oversight that occurs based on how the assets are changing hands. Committee members will hear greater detail on the due diligence that DNR undertakes with the help of DOL and outside consultants.

VICE CHAIR COGHILL asked Commissioner Feige to address the additional asset transfers and confirm that there are no new dollars or new authority that transferred, and the transaction is just a straight transfer.

COMMISSIONER FEIGE answered yes, the transaction would be just a straight across transfer.

VICE CHAIR COGHILL commented that if there are new agreements that those will percolate to the top.

COMMISSIONER FEIGE replied that Vice Chair Coghill's query is part of the due diligence and is one of the areas that DNR is tracking very closely.

CO-CHAIR TARR asked Commissioner Feige to readdress the North Slope upstream asset, post closure, specifically the two situations regarding the Milne Point and Liberty units where Hilcorp currently has 50 percent and post closure they will become the sole operator. She asked if the two different colors shown in slide displayed to committee members indicates that there are going to be two different Hilcorp subsidiaries.

COMMISSIONER FEIGE answered that the green color in the overview's slide is meant to note that the Liberty Unit is technically a federal unit, not a state unit. The sand color in the slide represents state units and the green color represents a federal unit. She asked Co-Chair Tarr if she answered her question.

CO-CHAIR TARR answered no. She specified that she was referring to the green and blue colors that shows the ownership percentage and if the separate colors showed that a different Hilcorp subsidiary is going to come in at 50 percent.

COMMISSIONER FEIGE explained that the different colors are simply meant to note the portions that Hilcorp would be taking in.

[2:27:17 PM](#)

MR. CALTAGIRONE reviewed the following on slide 12, Contrast to BP-ARCO Transaction Merger vs. Straight Purchase:

- BP/Arco Merger (2000):
 - Federal Securities and Exchange Commission Oversight.
 - Anticompetitive / antitrust issues to consider.
 - Merger of two major producers in Alaska.
 - Approximately 70 percent of combined production at time.

He explained that the overview will transition to how the state agencies involved in an oversight role in the BP/Hilcorp transaction will perform their due diligence. A comparison will be made to the BP and Arco merger of 2000, a completely different deal that will be used to compare with and contrast with the BP/Hilcorp transaction.

MR. CALTAGIRONE explained that the BP and Arco merger of 2000 was between BP Amoco and the Atlantic Richfield Company (ARCO), a global \$27 billion to \$30 billion merger of both companies. Because the merger involved two publicly traded companies, there was both a U.S. Securities and Exchange Commission (SEC) and a Federal Trade Commission (FTC) oversight role on the federal level. The SEC is the entity that protects investors of publicly traded securities and the FTC is the federal government's independent agency that protects consumers. The SEC did not have concerns with the merger, but the FTC sought to unjoin the deal that eventually led to an agreement where the Alaska assets of Arco Alaska were spun off to Phillips Petroleum, currently known as ConocoPhillips.

He noted that the merger of BP and Arco accounted for approximately 70 to 74 percent of the combined Alaska oil and gas production. The BP and Arco merger came on the heels of some other very large and notable oil mergers at the time: Shell and Texaco joint venture in 1997, BP acquisition of Amoco in 1998, and the Exxon and Mobil merger that was occurring at the same time. The concerns were much different at the time of the BP and Arco merger. The main concern with the BP and Arco deal was price manipulation at West Coast refineries.

[2:29:59 PM](#)

He continued reviewed the following on slide 12, Contrast to BP-ARCO Transaction Merger vs. Straight Purchase:

- Proposed Hilcorp Acquisition (2020):
 - Federal Trade Commission conclusions:
 - Hart-Scott-Rodino Act analysis.
 - No antitrust or competitiveness concerns.
 - Hilcorp increasing barrel of oil equivalent production share in the State from 12 percent pre-deal to 28 percent post-deal.

He said contrasting to today's BP/Hilcorp transaction, Hilcorp currently accounts for 12 percent of the combined oil and gas production in Alaska, post-deal the combined oil and gas production in Alaska increases to 28 percent. By contrast, ConocoPhillips will have 42 percent of Alaska-wide production post-deal, ExxonMobil will still have 19 percent. The numbers for the BP/Hilcorp transaction are not anywhere near what the numbers are for the BP and Arco merger of 2000.

MR. CALTAGIRONE noted that the Hart-Scott-Rodino Antitrust Improvements Act of 1976 required the FTC to have an oversight role in the BP/Hilcorp transaction. The parties in the transaction had to file paperwork with the FTC, analysis and a 30-day waiting period has occurred. The FTC did not issue anything, ergo the FTC does not necessarily have any antitrust or anticompetitive concerns with the deal. The BP/Hilcorp transaction is currently in the state's lap.

[2:31:08 PM](#)

COMMISSIONER FEIGE reviewed the following on slide 13, DNR: Division of Oil and Gas:

- State Pipeline Coordinator Office:
 - Fit, willing and able test.
 - AS 38.35.100(a).
- Leasing:
 - Administer and approve change in control of leases.
 - 11 AAC 82.605.
- Units:
 - Administer change in control of operator of Prudhoe Bay Unit.
 - 11 AAC 83.331.
- Commercial:
 - Examine existing financial assurances and determine what amendments will be required.
 - Analyze financials of Hilcorp and Harvest.
- Permitting:
 - Administer change in control of permits.
 - 11 AAC 83.158(e).
 - 11 AAC 83.346(e).
 - 11 AAC 96.040(c).
- 11 AAC 82.605 (b):
 - Paraphrase: No transfer of an interest in a lease is binding upon the state unless approved by the Commissioner.

She explained that in Alaska the state wears two hats, one as the landowner or lessor, the other as a regulatory authority. The State of Alaska owns and leases its resources to industry for development and production, a relationship that shields the state from the risk associated with exploration uncertainty and

the significant capital requirements associated with development.

COMMISSIONER FEIGE detailed that the State of Alaska generates through its lessor and lessee relationship the rents, royalties, and taxes. The most significant portion of the state's revenue comes through the royalties and royalty income, 50 percent of which goes to the Permanent Fund and the other 50 percent is then used for state government and state government services.

She emphasized that approving the change of control in its resource leases is by no means a rubber-stamped process. Alaska law is clear that no transfer of interest in a lease is binding upon the state unless approved by the DNR commissioner. Within DNR, the Commercial Section for the Division of Oil and Gas is charged with spearheading and doing the bulk of the due diligence associated with resource leases. Matt Snodgrass oversees the due diligence effort to examine the existing financial assurances of Hilcorp and its subsidiaries to determine what amendments are required.

2:34:00 PM

MATT SNODGRASS, Commercial Analyst, Division of Oil and Gas, Alaska Department of Natural Resources, Anchorage, Alaska, reviewed the following on slide 14, Financial Analysis, for the BP/Hilcorp transaction:

- Independent third-party review of the financial risk associated with the transaction:
 - National Economic Research Associates, Inc. (NERA).
 - NERA's energy practice has:
 - Over half a century of energy sector practice.
 - Prior experience assisting the State of Alaska in complex economic matters.
 - Proprietary modeling and analytic techniques.
 - Multiple Ph.D.-level economists with extensive experience modeling and analyzing risk in the energy sector.

He said the Commercial Section of the Division of Oil and Gas is largely responsible for conducting the inhouse financial and economic review of Hilcorp as well as the BP/Hilcorp transaction. The State of Alaska has contracted with a third-party consulting firm, National Economic Research Associates (NERA), to assist with its rigorous and robust analysis. NERA has been an economic consulting firm for over 50 years and one of their areas of specialty practice is doing complex economic

and financial analysis inside of the energy sector. NERA has past aided the State of Alaska and other public sector organizations in trying to understand complex commercial transactions.

MR. SNODGRASS opined that NERA offers different opportunities to increase value and rigor inside the BP/Hilcorp transaction analysis. NERA has a suite of proprietary modeling and analytic techniques that adds value in assisting with understanding and working the problems. NERA also has a stable of well trained and experienced economics staff including several PhD level economists that can help work with issues and make sure everything is fully pursued.

[2:35:47 PM](#)

He reviewed the following on slide 15, Financial Assurances:

- Ensure that the Hilcorp corporate family has the financial capacity to fulfill its obligations to the state, including those not realized for many years.
- Existing financial assurances framework:
 - Initial financial assurance agreement entered into in 2011.
 - Sixth Amended and Restated Financial Assurances Agreement in 2019.
- Regular reporting of highly confidential information:
 - Annual audited financial statements.
 - Quarterly unaudited financial statements.
 - Third party estimate of upstream dismantling, removing, and restoring (DR&R) obligation submitted every three years.
 - Reserve reporting requirements.
 - Insurance covering assets.

He said NERA's analysis will be supported with information around Alaska's statutes, rules, contracts, and leases. Informing NERA on Alaska's unique opportunities will help NERA frame questions that are of importance to the state in furthering its analysis. Having the analysis and information in place will inform the state on its financial assurance arrangement with Hilcorp. The intent for financial assurance agreements is to assure that the public interest will be protected today and long into the future.

MR. SNODGRASS emphasized that financial assurance discussions are not new conversations that the Division of Oil and Gas is having with the lessee. Conversations around structuring financial assurance arrangements in a way that protects the state's interests are conversations that the division has on almost a daily basis with different lessees.

He said the Division of Oil and Gas has an extensive and successful record of engaging in negotiations with Hilcorp to create the financial assurance arrangements that offers the state sufficient protection to ensure obligations are going to be satisfied. The Division of Oil and Gas began working and developing the financial assurance agreements with Hilcorp when they first entered Alaska in 2011. In December 2019, DNR and the division executed the Sixth Amended and Restated Financial Assurances Agreement, so the state is now in its seventh round with Hilcorp ensuring that a framework is in place to protect the state's interests.

2:38:08 PM

He referenced the characteristics of the existing financial assurance arrangements, noting that DNR has had and continues to have access to significant and highly confidential financial information from Hilcorp. The agreements in place since 2011 have required Hilcorp to provide annual audited financial information to the state. The DNR will be receiving annual audited financial information from: Hilcorp Energy One, the parent; Hilcorp Alaska, its Alaska subsidiary; and Harvest Midstream One, the midstream parent for Harvest Alaska, its Alaska subsidiary.

He detailed that in addition to the yearly audited financial statements, similar to a 10-K SEC filing for a publicly traded organization, DNR receives quarterly unaudited financials from Hilcorp that provides quarter by quarter oversight of the financial health of the Alaska subsidiary, Hilcorp Alaska. The DNR has a significant time series data set in observing the financial health of Hilcorp quarter by quarter.

He said in addition to the audited and unaudited financials that DNR receives from Hilcorp, the department also receives proprietary oil and gas information, including reserve reporting requirements. When asked, Hilcorp must deliver information about their oil and gas reserves inside the State of Alaska so that the state can more robustly manage its risk. The DNR also has the ability to request and evaluate the insurance coverages that

are in place to cover any assets in Alaska that are on state lands.

MR. SNODGRASS said another important requirement obligates Hilcorp to go out to the market and secure an independent third party to estimate how much it will cost Hilcorp to remove its working interest infrastructure on state lands and to return the lands to a condition that is acceptable to the DNR commissioner. The agreement allows DNR to understand the size of the obligations that Hilcorp carries on state lands.

2:40:49 PM

He addressed slide 16, Financial Assurances, as follows:

- Periodic reassessment of financial position.
 - Net worth ratio test and Altman's Z-score tests.
 - Automatic triggers to protect the State of Alaska should there be material change in financial health.
 - Surety bonding requirements that shift with the lessee's financial health.
- Financial assurances framework will be renegotiated using the results from the financial analysis to protect the State of Alaska's interests.

He noted that within the financial assurance arrangements with Hilcorp is an inbuilt mechanism that allows DNR to take action if a material change occurs to agreed upon financial metrics. The assurance structure provided to the state is automatically triggered to change when the financial health of the lessee deteriorates, requiring increased assurances.

He summarized that the previously noted analysis will allow DNR to negotiate the new updated financial assurances arrangements and make sure public interest remains protected.

2:42:05 PM

COMMISSIONER FEIGE reviewed the following on slide 17, Financial Assurances:

- BP represents to the state that it will remain secondarily liable for the upstream DR&R obligations of BPXA as they exist at the time of the transfer.
- BPPA retaining obligations related to the DR&R of TAPS and is leaving all parent company guarantees from BP

Corporation North America Inc. in place regarding that obligation.

COMMISSIONER FEIGE explained that BP remaining secondarily liable means should Hilcorp be incapable of executing on their obligations, BP steps in as the secondary liability. Additionally, BP Pipelines is retaining obligations related to the DR&R of TAPS and is leaving all parent company guarantees from BP Corporation North America in place regarding that obligation.

2:43:18 PM

JOHN PTACIN, Chief Assistant Attorney General, Oil and Gas Section, Alaska Department of Law (DOL), Anchorage, Alaska, provided background information and explained the department's role in the BP/Hilcorp transaction.

He reviewed the following on slide 18, Attorney General's Office Role:

- John Ptacin, Chief Assistant Attorney General, Oil and Gas Section. Former Chief of the Regulatory Affairs and Public Advocacy Section.
- Morrison & Foerster LLP and National Economic Research Associates.
- Department of Law - Oil and Gas Section's role:
 - Represent decision makers through various regulatory processes.
 - Represent the State of Alaska before the Regulatory Commission of Alaska (RCA).

He noted that he has been the legal advisor to the Division of Oil and Gas for the past six years and has represented the State of Alaska in all matters related to TAPS.

He explained that he is mainly before the committee to address TAPS, an important component of the proposed BP/Hilcorp transaction. The DNR and DOL has a team in place to get to the bottom of the legal and factual issues related to the proposed transfer of 48 percent of TAPS to Harvest. The DOL is taking the BP/Hilcorp transfer very seriously because the state, just like RCA, wants to know whether Harvest is fit and whether it is in the public interest to transfer 48 percent of TAPS to a new company.

MR. PTACIN said part of the team that is going to help the State of Alaska in its analysis includes the use of outside counsel from Morrison & Foerster, a law firm that has acted as the state's lawyer on TAPS matters for the last 40 years. Morrison & Foerster will help DOL on both TAPS and upstream issues.

He noted that not just lawyers are going to be looking at the BP/Hilcorp transfer. NERA will also be helping DOL on the midstream issues. If DOL feels that other expert assistance is needed, DOL will go and get it during the RCA proceedings as well.

He summarized that DOL and DNR are doing its legal and factual analysis because the State of Alaska, importantly, is not the entity that is going to make the decision whether TAPS, or at least the percentage thereof, is going to change hands.

[2:45:47 PM](#)

He addressed slide 19, RCA Process (Alaska Statute 48.06.305), as follows:

- RCA proceedings in general:
 - Quasi-judicial;
 - Five commissioners;
 - Resides under Department of Commerce (DCCED).
- RCA pipeline acquisition dockets:
 - Administrative process;
 - Court-like discovery;
 - Likely hearing.
- Questions answered in an RCA pipeline docket:
 - Is the acquiring pipeline operator fit and able?
 - Is the proposed acquisition in the public interest?

He remarked that letting committee members and the citizens of Alaska know about what the RCA is about to do will be helpful as well as what their role is as opposed to what the executive branch's role is.

He explained that RCA is a quasi-judicial body, a body that is essentially court-like when they make determinations like the BP/Hilcorp transaction. The RCA has five commissioners that essentially act like judges when a question like the BP/Hilcorp transaction is presented to them. The RCA is going to open a docket and parties like the state and the parties that are

looking to do the transaction are going to go before the RCA, which is essentially why the RCA is not at the joint committee meeting to answer questions. Having the RCA attend the joint committee meeting is essentially like asking a judge to come in and opine about a decision that he or she is about to make decisions on.

MR. PTACIN summarized that he is trying to do his best to explain what is about to happen. He emphasized that he does not represent the RCA but will likely represent the State of Alaska in proceedings related to the acquisition before the RCA.

2:47:11 PM

He explained that the RCA is important because the commission serves as the entity in the state that makes sure things like utilities are charging just and reasonable rates, and the utilities are running safe and efficiently. The commission's oversight includes the state's pipelines because there are barrels of oil that stay within the state and that confers to them their jurisdiction, TAPS is one of those assets as well.

He said the reason why pipeline entities end up before the RCA is because like local utilities and natural gas companies, the pipelines are essentially like monopolies and must go to an entity like the RCA to get a certification in order to operate. TAPS is one of several pipelines that are under RCA regulation.

He explained that part of his job every year is to look at the pipeline rates to make sure they are just and reasonable. TAPS and the other pipelines at issue with the BP/Hilcorp transaction come under the RCA's jurisdiction. The court-like case that is about to be entered with the RCA will decide two things: the public interest and is Harvest fit to run 48 percent of TAPS. The nice thing about the hearings before the RCA is that interested parties can intervene, information may be requested, and information gets shared. If there are discovery disputes, if there is information that is being withheld, parties can go to the five-member commission and get the materials that are needed. The RCA hearing is coming and that is a result of BP and Hilcorp filing their transfer proposal on September 27, 2019.

2:49:24 PM

He explained that for the last two month the RCA, as is normal in proceedings like the BP/Hilcorp transaction, has been reviewing the filing for completeness. Filings like the BP/Hilcorp transaction are very complex and sometimes parties miss things and the RCA will point out filing errors. During the

filing review process, entities and the public, including the State of Alaska, have been filing comments to the RCA explaining what they would like to see done before the RCA. Everybody has been in a holding pattern waiting to see where the RCA essentially wants to go with the question of how the Hilcorp acquisition relates to TAPS.

MR. PTACIN said last week the RCA made it very clear that their intention is to take a hard look at the proposed transfer. The RCA has assigned an administrative law judge to the case which means they have opened a docket. On December 13, 2019, the RCA sent an order requiring BP and Hilcorp to provide substantial amounts of documents to the commission by December 23, 2019. Included in the documents request by the RCA is the aforementioned purchase and sale agreement, audited financial statement for both BP North America and Hilcorp, and various documents explaining the corporate organization of all entities involved.

He emphasized that the case before the RCA is not going to be a garden-variety rate case that addresses the cost to ship a barrel of oil. The bigger question for the case is the Harvest fit and the ability to take over 48 percent of the company that essentially runs TAPS and is such a transaction in the public's interest. The decision will be made by the five-member commission board and not by the state, DNR, or DOL. The DNR and DOL will be a party in front of the RCA and that is why the departments are currently doing its homework on the audited and unaudited financials along with other data of Harvest and BP to answer the previously noted fundamental questions.

2:51:51 PM

He pointed out that Hilcorp is buying 48 percent of Alyeska Pipeline Services, the entity that runs TAPS. Hilcorp is not coming in to run TAPS. Hilcorp will become a voting member amongst several other companies in a consortium that all own a piece of TAPS: BP, ExxonMobil, and Unocal.

He said the state, as a party before the RCA, will look at whether Harvest can fund running TAPS. Every year the TAPS carriers get to make their money back for running TAPS plus a small profit. However, over time there is a necessity for cash calls that are anywhere from \$2 million to \$20 million a year depending on operating expenses and capital costs for operating an 800-mile pipeline that is 40 years old. There are times that the TAPS consortium must put forth cash.

MR. PTACIN noted that the DNR and DOL will do the testing and the analysis necessary to understand whether Harvest can take on unforeseen disturbance in TAPS. The RCA does not have a deadline and they are going to take a hard look due to the magnitude of the TAPS transfer.

[2:54:10 PM](#)

MR. CALTAGIRONE reviewed the following on slide 20, AOGCC Role:

- Designation of Operator:
 - Owner submits for approval a designation of new operator form:
 - New operator agrees to accept obligations.
 - Furnish surety or personal bond, amount depends on number of wells.
 - BPXA expected to remain operator of record as wholly owned subsidiary of Hilcorp.
 - Bonding from both Hilcorp and BPXA expected to remain in place.
 - 20 AAC 25.020.
- Designation of Ownership:
 - Within 15 days of new ownership of a property, Notice of Ownership must be filed with AOGCC.
 - 20 AAC 25.022.
- Bonding:
 - New requirements took effect May 2019, with optional phase-in over 4 years:
 - Both BP and Hilcorp are currently compliant with level of bonding and the commission will work with the applicants to determine if a variance is required post deal closure.
 - 20 AAC 25.025.

He explained that the Alaska Oil and Gas Conservation Commission (AOGCC) is an independent, quasi-judicial agency of the state that also resides under DCCED. The AOGCC has a regulation role with well regulation and the prevention of waste of the resource.

He said there are two functions that AOGCC performs as it relates to the BP/Hilcorp deal. The first is ministerial in nature which involves the designation of ownership, changeover of ownership and operator, and designated operator of well.

Under Alaska law, the new operator must accept the obligations of the old operator.

MR. CALTAGIRONE noted that within the slide 20 the bullet point that reads, "BPXA expected to remain operator of record as wholly owned subsidiary of Hilcorp," recently received information indicates that there will be a name change to Hilcorp.

He said the second of the two functions that AOGCC performs relates to bonding. New requirements went into effect in May 2019 as it relates to the amount of bonding that companies are required to carry for plugging abandonment obligations. Both BP and Hilcorp are currently compliant with the level of bonding and AOGCC will work with the applicants to determine if the variance is required after post-deal closure. Bonding requirements are found in Alaska regulation, 20 AAC 25.025.

[2:56:01 PM](#)

COMMISSIONER FEIGE reviewed the following on slide 21, DEC: Oil Discharge Prevention and Response (AS 46.04.030, 18 AAC 75.400-496):

- Facilities that produce, store, or transport oil must have an oil discharge prevention and contingency plan approved by DEC.
- Hilcorp has two options:
 - Change of Owner Amendment:
 - As a major amendment there is a 30-day public comment period.
 - Potential for quicker approval since it builds off previously approved BP plan.
 - New Plan:
 - Pre-application meeting required at least 60 days before submitting an application (held November 20, 2019).
 - Application due at least 180 days before start of operations.
 - 30 to 45-day public comment period.
 - Current BP Plans:
 - BPX Greater Prudhoe Bay, North Slope.

She said the Department of Environmental Conservation (DEC) also has a significant oversight role in the BP/Hilcorp transaction. It is charged with oil spill prevention and response, and as it pertains to the BP/Hilcorp deal and operations across Alaska,

generally. Any facility that produces, stores, or transports oil must have an oil discharge prevention and contingency plan that has been approved by DEC.

COMMISSIONER FEIGE explained that Hilcorp has two options. First, do a change of owner amendment which is as a major amendment there would be a 30-day public comment period associated with the filing and that would be a comment period opened by DEC. The change of owner amendment could be a quicker path for Hilcorp because the amendment builds from a previously approved BP plan.

She said the second option for Hilcorp is to apply for a new plan. A new plan requires a preapplication meeting at least 60 days before application submission. A preapplication meeting took place November 20, 2019; that application will be due to DEC at least 180 days before operations start at any facility under the discharge plan. The application also comes with a 30 to 45-day public comment period.

She noted that BP Alaska currently has an approved oil and spill contingency and response plan at the Greater Prudhoe Bay Unit.

[2:57:51 PM](#)

She reviewed the following on slide 22, DEC: Financial Responsibility Spills and Threatened Spills (AS 46.04.040, 18 AAC 75.205-290):

- Operators that produce, store, or transport oil must demonstrate proof of financial responsibility to respond to events and spills.
- Requires annual DEC approval.
- Amount is based on the company's single facility with the highest financial responsibility requirement (each facility is not required to have separate financial responsibility).
- Maximum proof required for any facility except tankers is \$93.5 million.

She said also under DEC's purview and attached to the responsibility for spills or potential spills is a financial responsibility component that every facility and operator must have. Operators that produce, store, or transport oil must demonstrate the proof of financial responsibility to respond to events and spills. The financial component responsibility requires annual DEC approval.

COMMISSIONER FEIGE explained that the amount of financial component is based upon the company's single facility that has the highest financial responsibility requirement. Every individual facility is not required to post the financial assurance, but the single highest financial responsibility requirement is required for the company's single facility.

She noted that the maximum proof of requirement for any facility is \$93.5 million. While there is financial assurance cap for any given facility or for each company's primary facility of \$93.5 million, there is no cap on liability. Every company is 100 percent responsible for any spill or event that occurs on their leases or their units, the \$93.5 million is simply a cap on the financial assurance for DEC.

She reviewed the following on slide 23, DEC: Financial Responsibility Spills and Threatened Spills (AS 46.04.040, 18 AAC 75.205-290):

- BP proof of financial responsibility cannot be transferred.
- Hilcorp already has demonstrated proof of financial responsibility for the maximum \$93.5 million for its current assets, using commercial insurance policies.
- Hilcorp must apply for DEC approval to include the newly acquired facilities, prior to sale closing.

3:00:11 PM

She reviewed the following on slide 24, DEC: Contaminated Sites Liability and Cleanup:

- For contamination existing at the time of sale, Alaska law holds both BP and Hilcorp responsible for contamination after the sale (joint and several liability).
- While BP is a responsible party and will continue to be responsible for contamination existing prior to sale, Hilcorp will conduct activities relating to cleanup actions, long term monitoring, and implementation of institutional controls.
- There are both:
 - Active contaminated sites (actions still necessary).
 - "Cleanup Complete with Institutional Controls" contaminated sites (contamination remains in place).

- Moving forward from the sale, Hilcorp will be liable for contamination it causes or contributes to.

COMMISSIONER FEIGE said contaminated sites is under DEC's oversight. The Prudhoe Bay Unit has been in production for 40-plus years and there are areas across in the unit where there could have been or have been spills previously occurring or past drill cutting pits that may have not been closed out to the satisfaction of the state. For contamination that is existing at the time of the sale, Alaska law holds that both BP and Hilcorp are responsible for that contamination, Hilcorp becomes responsible for contamination that occurs after the sale, that is the joint and several liability. While BP is the responsible party for any contamination that existed prior to the transaction, Hilcorp will probably be undertaking the conduct of activities to continue to cleanup or do the long-term monitoring or implementation of institutional controls.

She explained that on the Greater Prudhoe Bay Unit there are currently both types of contaminated sites. Contaminated sites are characterized as either sites where actions are still necessary or sites where cleanup is complete with institutional controls; these are sites which could have contamination that remains in place for natural attenuation over time due to the potential to cause more environmental harm from removal. Cleanup with institutional controls means getting the site to a standard of cleanup approved by the state and to the satisfaction of DEC.

She summarized that after the BP/Hilcorp transaction, Hilcorp will be liable for any contamination that it causes or contributes to.

[3:02:19 PM](#)

SENATOR BISHOP asked if the legislature could see the line of questioning matrix that DNR will use for the due diligence on the financials.

MR. SNODGRASS answered that committee members will receive information as DNR progresses through the analysis.

SENATOR BISHOP responded that he looked at Hilcorp's producing wells in the Lower 48 and he'd like to know how many are horizontal and how many are vertical when he looks at the return for a ten-year run. He asked if that is one of the things that DNR will use in its financial modeling.

MR. SNODGRASS answered no. He explained that DNR will do financial modeling with forward-looking expectations around development plans, production changes, and associated cash flows.

3:04:24 PM

SENATOR BISHOP responded that he does not have to look at the numbers because he knows Mr. Snodgrass understands them, but he wants to make sure the right questions are being asked.

VICE CHAIR COGHILL inquired if the modeling used by NERA is the type that DNR is familiar with.

MR. SNODGRASS answered that modeling will be driven by the sorts of questions that DNR ultimately asks. NERA's modeling is proprietary and the relationships that exist are not known. He said he expects extensive exposure to several different types of models.

SENATOR KAWASAKI asked the extent to which DNR will have access to confidential information and how important DNR believes the confidential information is for understanding the financial fitness of Hilcorp.

MR. SNODGRASS replied DNR has access to the audited financial statements, the associated risks, forward-looking expectations, and market exposures. Hilcorp has been put on notice that through the NERA process the DNR will request additional information on an as needed basis.

3:06:52 PM

SENATOR KAWASAKI noted that the transfer of interest in the lease is binding upon the state unless the commissioner approves the transfer. He asked what circumstances the commissioner would deny the lease transfer.

COMMISSIONER FEIGE replied that approval is based on a level of comfort that the lease can be operated by the entity in maintaining the state's interest in the lease.

SENATOR KAWASAKI asked at what point does the commissioner or department say they do not feel comfortable. He inquired if a commercial lease has ever been denied by the department.

3:08:27 PM

COMMISSIONER FEIGE answered that DNR will speak out during the due diligence process when seeking additional information. Both companies have been very forthcoming in providing information

when asked. However, if the state is not comfortable that the transaction is not in the state's interest, then the state will not approve the transaction. She said to her knowledge she does not know that a commercial lease has ever been disallowed.

REPRESENTATIVE TUCK asked who decides on the auditors for third-party audits.

MR. SNODGRASS answered that the auditors are selected by Hilcorp, the lessee.

REPRESENTATIVE TUCK pointed out that DNR has described its role as, in the public's interest, but the RCA role in statute states, "in the best interest of the public." He asked if there is a different standard between the DNR and RCA.

[3:10:36 PM](#)

COMMISSIONER FEIGE answered no. She opined that the verbiage is an art of language. If the transaction is in the state's interest, the transaction absolutely is in the public's interest.

REPRESENTATIVE TUCK asked what happens if there is a greenlight from DNR but not from RCA. He inquired if a conflict between DNR and RCA would be adjudicated.

COMMISSIONER FEIGE replied that DNR probably wouldn't greenlight something that RCA wouldn't also greenlight. She noted that the state pipeline coordinator section has a role with the, "Fit, willing, and able" test that is also part of what RCA undertakes. The DNR is working in parallel with the RCA regarding information sharing.

REPRESENTATIVE TUCK pointed out that local hire is in the best interest of the public. He opined that one question that the committee may want asked is how much local hire there will be.

[3:12:57 PM](#)

COMMISSIONER FEIGE answered that local hire is not part of DNR's process. However, Hilcorp has noted that they have interviewed well over a thousand people. Hilcorp will be putting together an employment plan. Future hearings will allow committee members to directly ask the companies about local hire.

VICE CHAIR COGHILL opined that committee members will hear from the legislature on a regular basis about hiring Alaskans. It is a topic that the legislature is not going to be quiet about.

SENATOR KIEHL noted that Mr. Snodgrass and Mr. Ptacin commented that they have audited financial statements from Hilcorp, and that the RCA has insisted on audited financial statements. He said he read that Hilcorp has asked to be excused from filing audited financial statements because they don't do audited financial statements. He asked Mr. Ptacin to comment.

MR. PTACIN answered that his recollection is that as of Friday, December 13, the RCA asked for Hilcorp's audited financial statements. He surmised that Senator Kiehl may be referencing when Hilcorp asked at present that any sort of financial information remain confidential once filed with the RCA. The RCA has not ruled on whether confidentiality will be granted to Harvest and BP.

MR. SNODGRASS explained that DNR has inhouse audited financials. He said regarding Representative Tuck's question, the lessee does select the auditor that it uses for the audited financial statement submissions. However, when DNR does audits by its inhouse auditors inside the Division of Oil and Gas, included within the audits are things like royalty audits.

[3:15:56 PM](#)

SENATOR KIEHL noted that Mr. Snodgrass talked about the information and the analysis with the intent being so that DNR could, "more robustly manage our risks. He asked what tools DNR has to process or more robustly manage the state's risks.

MR. SNODGRASS explained that one of the ways DNR manages risk in an ongoing way is through the development of agreements at the onset to assist with measuring, managing, and then mitigating risk in an ongoing way. There are different financial metrics that DNR can track through time as well as pre-agreed upon inbuilt mechanisms that should the risk profile of the state change, the financial assurances change in response.

SENATOR GIESSEL referenced bonding and TAPS, noting that BP will remain secondarily liable for the dismantling, removing, and restoring (DR&R). She asked if bonding is done for DR&R and where the money would come from if BP were to go bankrupt.

[3:17:45 PM](#)

MR. PTACIN answered that BP and its predecessors that have owned part of Alyeska Pipeline have raised significant money through tariff rates to do the DR&R for TAPS. He said Senator Giessel is not wrong in her conclusion that BP is talking about a corporate

guarantee to pay the DR&R for TAPS. However, the requirement to do the DR&R for TAPS is not just beholden to one company, the DR&R requirement is essentially whomever else has a percent of the pipeline also must agree to take the TAPS assets out of the ground. He said if the Hilcorp acquisition goes through, ConocoPhillips, ExxonMobil, and BP are the three companies that are joining for the DR&R obligation.

SENATOR GIESSEL asked what happens to BP's DR&R obligation 40 years in the future if they go bankrupt in 10 years.

MR. PTACIN explained that through the TAPS tariff rates for the last 40 years, the companies have not been required to set aside money for DR&R. One reason the decision was made not to require money to be set aside is that the sequestration of stagnate capital would have raised TAPS tariff rates quite a bit, resulting in a substantial deduction in the state's royalties and taxes. The companies have collected the money for DR&R and will do the DR&R as a corporate guarantee.

3:20:40 PM

SENATOR GIESSEL noted that TAPS is run by a consortium. She asked who oversees the consortium and if there is a chairman.

MR. PTACIN answered that there is a side agreement called the TAPS Agreement amongst the carriers. The agreement sets out a series of bylaws on consortium interaction and decision making. Part of the decision making for the RCA and the state will be to determine if Harvest fits into the TAPS Agreement.

REPRESENTATIVE RASMUSSEN noted that the committee members have heard a lot about public interest. She asked how DNR defines public interest. She said one of the things that the state will consider is Hilcorp's expertise in aging fields and higher production levels that will bring in more royalties and tax money to the state.

REPRESENTATIVE RASMUSSEN said she has heard a lot from the public about philanthropy because BP is known as a community pillar for their giving. She asked Commissioner Feige to expand on philanthropy.

3:22:42 PM

COMMISSIONER FEIGE answered that in determining what is in the public interest as part of the department's due diligence process, DNR is looking at a broad suite of factors including the capability of Hilcorp and their history in the state since

2011. The DNR has seen Hilcorp's history in taking mature assets, raising production, and lowering operating costs.

She said the protection of the public interest and the state's interest goes directly to royalty income which feeds the Permanent Fund and state government services. The DNR looks at production and future production potential for production taxes, property potential for future property income taxes, financial analysis, and financial assurance agreements for the DR&R of upstream assets. All the previously noted factors are considered through the department's due diligence process.

She reiterated that DNR is in its seventh iteration with Hilcorp. Hilcorp has DR&R financial assurance agreements in place with the state. The due diligence process gets rolled up into a broader picture of whether DNR believes Hilcorp is an entity that can perform at a level that can replace BP.

She explained that philanthropy is not part of DNR's oversight. She disclosed that Hilcorp has clearly expressed to the department their philanthropy plan and expects that Hilcorp will share with the public their philanthropy plan.

[3:25:35 PM](#)

CO-CHAIR TARR asked Mr. Snodgrass to readdress his previous overview of financial assurances. She said what concerns her, even though DNR has access to financial statements, is whether Hilcorp's additional subsidiaries have the financial resources for the piece they are taking on, especially for companies that have not been in existence before. She asked what kind of asset transfer must happen for the subsidiaries.

MR. SNODGRASS answered that with respect to the audited financials that DNR receives yearly, the department received financials for Hilcorp Energy One and Harvest Midstream One. The DNR is currently receiving financials for Harvest Midstream One, the parent entities of Harvest Alaska. HMI is the parent of Harvest Alaska, and HE1 is the parent of Hilcorp Alaska; those subsidiaries will be consolidated into the audited financials of the parents.

MR. SNODGRASS said for Hilcorp Alaska, DNR also receives yearly audited financials for just a subsidiary entity as well. Harvest Alaska is itself a consolidated entity of a wholly owned subsidiary of Hilcorp, so its financial information is consolidated inside of the yearly audited financials from Hilcorp Alaska.

3:27:25 PM

CO-CHAIR TARR said with these annual evaluations that you're doing or the three-year true up on the DR&R obligations, then as these branches mature and different responsibilities are taken on, that kind of regress evaluation will continue to happen so that there's not a circumstance - and where I'm going with this is thinking to the AOGCC and what happened with their recent regs to increase the bonding capacity and also the request for us to do legislation that would allow them to go back on prior operators - so just those conversations have sort of highlighted what can happen through the evolution of ownership and that's why I'm asking in this context.

CO-CHAIR TARR asked if DNR's annual evaluations and three-year true-up on the DR&R obligations will continue as these branches mature and different responsibilities are taken on so that there's not a circumstance like what happened with the AOGCC's recent regulations to increase the bonding capacity and request for legislation to allow them to go back on prior operators.

MR. SNODGRASS answered that the underlying idea is that should additional subsidiaries be created or additional assets that DNR needs to authorize be picked by Hilcorp or Hilcorp subsidiary, that is going to automatically be rolled into the future assurance agreement. The hope is to avoid the situation she described by providing a durable and predictable lessee framework that defines their expectations. He added that it is hard to visualize a situation in which there could be such a hole, but the recommendations to pay attention in DNR's analysis is beneficial in making sure the concern is reflected during the renegotiations for financial assurances.

CO-CHAIR TARR recognized that Representative Fields was in attendance and Representative Josephson was online.

3:29:36 PM

REPRESENTATIVE HANNAN commented that the interest in Alaska that BP is transferring is a minority of their worldwide oil and gas interests. She asked for a parallel for Hilcorp; how much of Hilcorp's total oil and gas investment has been in Alaska and how much will it be after the transaction.

MR. SNODGRASS said he question should be directed to Hilcorp but his understanding is that Hilcorp will substantially be an Alaska company after the transaction.

REPRESENTATIVE HANNAN asked if the RCA has scheduled its quasi-judicial hearing or if the schedule is pending receipt of more information.

MR. PTACIN answered that scheduling by the RCA is pending more information. He said there are a number of matters that will have to be taken up, the first of which will be on confidentiality.

[3:31:30 PM](#)

CO-CHAIR TARR noted that she spoke with the RCA and the next decision point will be on January 10, 2020 when a decision on the confidentiality request is issued. The RCA will decide about whether the application is complete to move forward. The most recent order from the RCA noted that the commission is not statutorily required to make its decision under any timeline. This is different than the requirement for a utility.

MR. PTACIN answered correct. He said there is not a six-month clock on a pipeline matter.

VICE CHAIR COGHILL opined that the RCA does have the public interest in mind, and it is not in the best public interest to drag the process out.

REPRESENTATIVE SPOHNHOLZ asked if the state has a working DR&R estimate for TAPS. She inquired what safeguards are in place to ensure that if the DR&R is not set aside in a distinct fund that the actual value for the DR&R is preserved in case of a bankruptcy.

MR. PTACIN answered that the last DR&R estimate of \$2.631 billion was done in 2005. To date, the major owners of TAPS have collected upwards of \$5.164 billion with interest, which is substantially more than the estimate. Corporate guarantees are currently in place from three very large oil companies to perform the DR&R of TAPS. He conceded that corporate guarantees are not the greatest assurances, but the DR&R is something that DNR is going to look into as part of the BP/Hilcorp deal. He opined that with rising costs, the over collection may be closer than the 2005 estimate indicates.

[3:34:23 PM](#)

REPRESENTATIVE SPOHNHOLZ opined that the delta between \$2.6 billion and \$5.1 billion is significant, particularly when considering that the state gets royalty money on profits that are being avoided. She asked if there is a distinction in the way DR&R is handled on the North Slope versus TAPS.

MR. PTACIN asked if the question is in respect to the upstream versus TAPS.

REPRESENTATIVE SPOHNHOLZ answered yes.

MR. PTACIN explained that one big distinction is that because TAPS is a regulated pipeline, part of the rate structure has been to allow for the companies to collect their rates for DR&R. That is not the reality for the upstream.

REPRESENTATIVE SPOHNHOLZ asked if there is no obligation to set aside the DR&R funds for North Slope upstream assets.

MR. PTACIN answered that upstream is mostly done through bonding and corporate guarantee.

MR. SNODGRASS explained that DNR has engaged in a series of discussions with its upstream lessees to try and develop financial assurance agreements to secure against the outstanding obligation that differs between companies.

[3:36:24 PM](#)

REPRESENTATIVE SPOHNHOLZ asked if the negotiations are primarily handled by AOGCC or DEC.

MR. SNODGRASS answered that the negotiations and the financial assurance agreements are almost exclusively run through DNR.

VICE CHAIR COGHILL noted that there was quite an issue some years ago on corrosion and replacement for gathering lines. He said the issue was troubling, but it was handled.

SENATOR REINBOLD asked how many people are getting laid off. She noted that for every oil and gas job there are roughly ten other jobs that are created in a community.

She opined that BP has done an excellent job being an operator and she is in awe of what they have been able to achieve. BP did have an issue in the Gulf of Mexico, but their deep pockets allowed them to dig deep and reconcile the best they could.

Hilcorp had a spill in 2015 that took a couple of years rectify, so one should always look at past performance, she said.

SENATOR REINBOLD noted that Commissioner Feige said stress tests were done to ensure that Hilcorp was able to run the field as well as having liability and insurance coverage. She opined that Hilcorp looks like a great company to take over a declining field due to their creativity and innovation in other declining fields. She asked how DNR can ensure that there is the \$93 million from a new operator for insurance and liability and if the qualification is based on assets or potential liability.

3:38:51 PM

COMMISSIONER FEIGE explained that the \$93.5 million is the financial responsibility required by DEC and by no means is the amount meant to be the only financial responsibility required of the operator. Liability always remains 100 percent with the entity or consortium that is the operator and owner. The \$93.5 million cap is based upon the single largest facility responsibility under DEC's regulations. If the state responds and is involved in helping with cleanup, DEC has the authority to recover all costs. She added that DNR has financial assurance agreements going into place for the DR&R.

SENATOR REINBOLD asked if the committee is going to hear from BP, ConocoPhillips, Exxon, and Hilcorp or will the discussion be left to the regulatory agencies.

3:40:31 PM

VICE CHAIR COGHILL replied that the committee will have more hearings on the BP/Hilcorp transaction. He said the current meeting is the first overview to discover what the BP/Hilcorp deal looks like and their financial assurances. The committee will talk about taxes and other topics; for example, TAPS was built for a much larger volume than what currently runs through the pipeline, an issue that will have to be addressed. The committee meetings will be handled differently in the House and Senate, but the current meeting is for committee members to hear how the state sees the transaction in its best interest, the legal challenges, where the economic studies need to fall, and how the commissioner gets to make a decision at the go or no-go point. The RCA is going to be looking at TAPS in depth.

He reiterated that he is chairing the current meeting to help with discovery, but each chairman in each body is going to bring their specific issues to light. He said he committed to the House that the current meeting would be kept at as high a level

as possible because whether the issue is Alaska hire, financial assurances, or the importance of DR&R when no one knows when it will occur, those are big deals. However, the main thing is to keep the oil flowing.

3:42:35 PM

REPRESENTATIVE TUCK noted that there was a presentation on DNR's Resource Source Book that recently came out that shows a steep decline in production for 2020. DNR was not at the presentation but it alluded to the uncertainty, risk factors, and unknowns associated with the BP/Hilcorp transaction. He asked what the big cause is in the sudden drop in production if Hilcorp is very good at getting the last drop of oil in any find or field.

COMMISSIONER FEIGE replied there was no aspect of the BP/Hilcorp transaction that was considered in the production forecast for the year going forward. The decline primarily reflects the natural decline curve of the Prudhoe Bay Unit, which is approximately four percent per year.

3:45:39 PM

VICE CHAIR COGHILL asked Commissioner Feige to complete the BP/Hilcorp transaction overview.

COMMISSIONER FEIGE reviewed the timeline depicted on slide 26.

- The goal of BP and Hilcorp:
 - Closure in the second quarter of 2020.
- Under Alaska law the State of Alaska does not have a timeline for review.

She emphasized that the State of Alaska will take the time to undertake its due diligence to either say the transaction is in the state's and the public's best interest or it is not.

She said if the BP/Hilcorp transaction were a baseball game, the DNR review and due diligence process is in the third inning. The DNR and RCA review is early in the game with new information being received. The BP/Hilcorp purchase and sale agreement is 400 pages long, so the review by DNR and RCA will be a long, thorough, and methodical process.

3:47:53 PM

CO-CHAIR TARR explained that one of the things that has been publicly discussed is the idea of another public charter or

document that addresses some of the concerns that were previously addressed.

COMMISSIONER FEIGE replied that looking back at the Arco and BP merger, the charter was a document designed to compel a certain level of corporate behavior or corporate responsibility. Looking at how the merger played out with ConocoPhillips and then Phillips Petroleum, the charter never served any purpose whatsoever. First, the charter was not legally binding or enforceable. The charter was an available tool at the disposal of the department's many tools that could be used to attain a comfort point that the public interest and the state interest is protected.

She opined that the document was legally unenforceable. None of the activities in the charter were done or undertaken. If there was a point in the BP/Hilcorp transaction where a tool like a charter was necessary, DNR would have something with teeth in it that is legally binding.

She summarized that DNR is in the early stage in the due diligence process and there is no need at this point for a tool like a public charter. However, a charter is at the department's disposal should it be needed.

3:49:56 PM

SENATOR BISHOP commented that going forward with the hearings prospectively, the Alaska Department of Labor and Workforce Development should be consulted in the BP/Hilcorp transaction. He noted that workplace safety concerns have been brought to his attention and the department should come and explain to the committee how Hilcorp executes facilities, inspections, workplace safety, etcetera. Having the department involved will assure the working public that there will be no gaps in workplace safety.

VICE CHAIR COGHILL said Senator Bishop's comments will be taken into consideration.

REPRESENTATIVE TUCK referenced Chair Tarr's comment on charters and the discussion about enforceability. He noted that BP has given an assurance to the State of Alaska on secondary liability of assets. He asked how enforceable BP's assurance is. He inquired if BP's assurance agreement is an agreement between BP and Hilcorp, or between BP and the State of Alaska.

MR. PTACIN explained that BP is stepping in to be secondarily liable. This will require a legal document that both DOL and Morrison & Foerster will write in a way that will be enforceable.

REPRESENTATIVE TUCK asked if the agreement would be between the State of Alaska and BP, or if the state just watching what transpires between BP and Hilcorp.

MR. PTACIN replied that he imagined that the State of Alaska would want to be part to the liability agreement.

3:52:36 PM

REPRESENTATIVE SPOHNHOLZ commented that she respectfully disagrees with Commissioner Feige's statement regarding the value of the public charter. She said her two decades of experience in the nonprofit sector showed her that the public charter is important in guaranteeing and putting in the public sphere both BP and ConocoPhillips' commitment to philanthropy.

She opined that the oil industry has been the backbone of philanthropy in the State of Alaska for a very long time. When considering the possible elimination of a key philanthropic partner in the State of Alaska, the public charter was very important to providing some assurances to the community that there would still be a lot of philanthropy.

She said one of the first things that many in the nonprofit sector thought of when learning about the BP/Hilcorp transaction was a deep concern for the health of the nonprofit sector which has already been challenged by budget cuts over the last year. BP has been an incredible philanthropic investor in the State of Alaska and has done so much for the community.

She remarked that one of her biggest concerns about the BP/Hilcorp transaction is about the lack of transparency for the public with regards to whether Hilcorp has the assets to back up its responsibility to the State of Alaska. She said she has a lot of respect in DNR's ability to do stress tests and internal evaluations. However, she asked how information can be made available to the public in a digested format to create more confidence in the community. She opined that public confidence is just as important as the expert professional doing their due diligence.

3:55:06 PM

MR. PTACIN answered that regarding TAPS and the midstream issues, the RCA will decide on whether the release of information will create a competitive or financial disadvantage. The RCA will also look at the need of the public in whether the public interest in knowing the released information outweighs any sort of proprietary value claim. He noted that the RCA has denied confidentiality requests in recent cases. He opined that the public would find the information from the RCA case to be incredibly illustrative due to the massive sale of 48 percent of a 700-mile pipeline. He added that the amount of data that gets put into an RCA case is remarkable.

He said going forward he imagined that there will be an opportunity for DNR to provide answers to questions regarding work being done upstream, how far the department is going, the type of testing, and what the data is showing.

He opined that there is a way to relay information to the legislature and the public without betraying the confidence of a company that is trying to keep proprietary information away from competitors.

REPRESENTATIVE SPOHNHOLZ reiterated that buoying public confidence via transparent information is important. She remarked that when an accountant says, "I've done the work, trust me," she trusts and respects the professional to do their work, but some transparency is needed.

3:58:00 PM

VICE CHAIR COGHILL opined that committee members received a good and credible look at the confidence level of the people and departments who will be looking out for the best interest of Alaska.

He said the departments' broad overview looked at what portion of the field is going to be impacted, how big the pipeline question is on everything from how to roll TAPS up to how to keep it afloat. He emphasized that Alaska wants to be in the production mode while also requiring environmental credibility to be very high.

VICE CHAIR COGHILL said he personally has a lot of confidence in Hilcorp, but the transaction is a big undertaking that requires the state to go through its due diligence. The next questions are going to be on fitness and finance, how will Alaska benefit from the Hilcorp transaction, and what are some of the economic challenges.

He opined that the fitness question is still under scrutiny and the committee's overview provided members information about how the departments are looking at fitness economically, regulatorily, and within the fields.

He said the departmental overview gave the committee a good place to do its own due diligence, but also to provide a way for members to ask questions as credibly as possible. Committee members have a lot of people asking them questions that are difficult to answer, but the departments provided a good base to work from.

CO-CHAIR TARR stated that she looked forward to the ongoing conversations.

VICE CHAIR COGHILL said it was a pleasure working with the House on the start-up discussion for the BP/Hilcorp transition. How the House and Senate take on the different issues is unknown, but he expects that the two bodies will work closely together.

4:00:48 PM

There being no further business to come before the joint committee, Vice Chair Coghill adjourned the joint meeting of the Senate and House Resources Standing Committees at 4:00 p.m.